



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
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FROM: Wendy L. Watanabe
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SUBJECT: **COST ANALYSIS OF PROJECT 50 HOMELESSNESS REDUCTION
PROJECT (Board Agenda Item S-2, May 26, 2009)**

In November 2007, the Board of Supervisors approved Project 50 (Project) as a demonstration project to move 50 of the most vulnerable chronic homeless individuals off Skid Row and into permanent supportive housing. The Project first houses the participants and provides critical integrated supportive services, including health and mental health services and substance abuse counseling. Project services are provided and coordinated by 24 government and non-government agencies, including the County Chief Executive Office (CEO), Department of Mental Health (DMH), Department of Health Services (DHS) and Department of Public Health (DPH), contractors and non-profit agencies. The Project has a budget of approximately \$2.63 million through June 30, 2009, and a total budget of \$3.67 million through its June 30, 2010 end date.

On May 26, 2009, the Board of Supervisors instructed the Auditor-Controller to conduct a cost analysis of the Project and report back to the Board on all costs through June 30, 2009.

It should be noted that our review was limited to the Board's instruction to report back on all costs of the Project. However, to evaluate future Project expansion or overall Project effectiveness, we suggest the CEO complete a cost/benefit analysis of the Project as instructed by the Board when the Project was approved. Project management, consisting of the CEO and other County departments, indicated that Project 50 has been extremely successful in keeping Project participants in stable living

situations, and reducing hospitalizations and jail time. The CEO also indicated that the Project has resulted in cost avoidance, as a result of participants spending fewer days in hospitals, jails, etc., over the first year of the Project.

The following are the results of our review of the Project's costs.

Summary of Review

Our review indicates that the Project budget did not include all of the Project-related costs. In addition, there was no centralized accounting for the Project and the County departments involved did not track all the costs specifically for this Project. As a result, we could not determine the total cost of the Project. We did identify approximately \$1.99 million in actual costs compared to the Project budget of \$2.63 million (see table on page 3). Based on this, it may appear actual expenditures were approximately \$634,000 lower than budgeted. However, as discussed below, we noted that there were other Project-related costs that were not budgeted or tracked.

The CEO indicated that the departments did not track all Project-related costs because they were not specifically instructed to track them. The CEO also indicated that they only budgeted/tracked incremental costs, or those costs that were only incurred because of the Project (e.g., a new computer used exclusively for the Project). According to the CEO, this is how they record costs for all demonstration projects, such as Project 50.

While the CEO may have omitted some of the Project 50-related costs for the reasons noted above, we recommend the CEO include all project-related costs in future demonstration project budgets, and centralize the accounting function to capture all actual costs. This will ensure the County has complete cost information to evaluate the costs/benefits of the demonstration projects. However, the CEO indicated that based on the number of projects they manage, and the uncertainty of what project costs will ultimately be incurred, it would be difficult to identify all costs that should be included in the project budgets.

Recommendations

CEO management:

- 1. Identify and ensure all project-related incremental and non-incremental costs are included in future demonstration project budgets.**
- 2. Centralize the project accounting and ensure all costs are recorded.**

Definition of Project Costs

As noted earlier, the Project 50 budget did not include all Project-related costs. New programs, such as Project 50, result in two kinds of costs to the County; additional or incremental costs that are only incurred because of the program, and non-incremental costs that are incurred, but not solely because of the program. An example of a non-incremental cost is time spent by administrative staff on the new program. These staff would be employed and paid by the County, regardless of whether a new program was started, so their salaries and employee benefits are not incremental. However, their cost (salaries and employee benefits) for the time they spend on the new program should be considered as part of the total cost of the program. Some programs also result in costs to other agencies, outside of the County, that may also need to be considered to determine the total cost of the program.

Budgeted and Actual Costs

For our review period (fiscal year 2007-08 to fiscal year 2008-09), we identified approximately \$1.99 million in actual costs compared to the \$2.63 million budget. While it may appear actual expenditures were approximately \$634,000 lower than budgeted, we noted that there were other Project-related costs that were not budgeted or tracked, as discussed below.

Project Cost Categories	Budget (1)	Actual Expenditures	Over/(Under) Budget
Skid Row Housing Trust contract services	\$ 480,343	\$ 488,106	\$ 7,763
DMH	599,646	423,665	(175,981)
DPH	363,554	341,739	(21,815)
DPH contract services	291,111	197,396	(93,715)
DHS contract services (2)	535,658	434,323	(101,335)
DMH contract services	355,578	106,857	(248,721)
Total	\$ 2,625,890	\$ 1,992,086	(\$ 633,804)

(1) The budgeted costs generally included contractor/County staff salaries, services & supplies, medication, building improvements, etc.

(2) The CEO indicates that the contractor has applied for a rate increase (from \$125 to \$200 per medical visit) from the State, which could result in retroactive reimbursement and additional revenue for the Project.

We also identified approximately \$27,800 in additional incremental costs that were not included in the Project budget and were not tracked:

Additional Incremental Project Cost Categories	Estimated Amounts
County staff overtime for registry and security services (A)	\$ 17,934
Vehicle Costs (B)	9,870
Total	\$ 27,804

(A) County staff overtime for registry and security services

The Project budget did not include County staff time to identify (register) the 50 most vulnerable homeless individuals to participate in the Project, because it was not considered to be incremental. However, DMH paid 21 employees approximately \$16,000 in overtime for registry work. Overtime cost should be included as incremental program costs because it is an additional cost specifically related to the Project.

In addition, Project management did not budget/track approximately \$1,934 in overtime paid to contract security staff to provide security for staff working on registry. These costs should be included as incremental costs because they were only incurred because of the Project.

(B) Vehicle Costs

The Project used one leased and two County-owned vehicles. However, the cost of the two County vehicles was not budgeted/tracked. We estimated the incremental cost for these vehicles to be approximately \$9,870, based on information (repair and fuel costs, etc.) from the Internal Services Department. These costs should be included as incremental costs because they were only incurred because of the Project.

Non-Incremental Costs

As noted earlier, programs may incur non-incremental costs (e.g., administrative costs) that are related to the program, but were not incurred solely because of the program. These costs were not included in the Project 50 budget, but should be considered as part of the total Project costs.

Non-Incremental Project Cost Categories	Estimated Amounts
Project Administration (DMH, DHS, DPH, CEO) (C)	\$ 165,490
Contractor-provided health care (D)	27,717
Total	\$ 193,207

(C) Project Administration

This amount relates to salaries and employee benefits for seven County employees in the CEO, DMH, DHS and DPH who spent a significant amount of time (over 100 hours) on Project budgeting and administration during their work on the Project. However, it does not include CEO executive management, including the Deputy Chief Executive Officer (overhead positions), or costs associated with staff who spent an insignificant amount of time on the Project.

(D) Contractor-provided Health Care

One of the Project contractors provided health care services to the participants. The Project budget included the contractor's salaries and services and supplies, but did not include the cost of non-psychiatric medications and ancillary services (e.g., x-rays, lab tests, etc.). As a result, the contractor billed the County \$27,717 for these items under an existing contract with DHS. These costs should have been budgeted for as Project costs.

In addition, the Project budget included \$378,000 for psychiatric medications from DMH. However, DMH records only supported \$5,000 in actual medication costs, \$373,000 under the budgeted amount. The difference between the medication budget and actual cost may be due to the CEO not instructing departments to track all Project-related costs.

DMH management indicated that the medication costs may have been paid for by other sources (e.g., Medi-Cal, Medicare and drug manufacturers' patient assistance programs, etc.) because Project participants are placed in a structured situation and become eligible for these programs that cover their medication cost. While we agree that the medication cost may have been reduced by revenue from other sources, the Project should track these costs, which can then be offset by the revenue received.

Project 50 management did not budget/track these costs because they believed they were non-incremental, because the Project participants may have received these services and medication regardless of whether Project 50 was in place. However, these costs should be tracked and should be considered as part of the total cost of the Project.

Additional Contractor Costs

Project 50 contractors received \$1.23 million (74%) of the total \$1.66 million that was budgeted for contract services during our review period. However, one contractor indicated that they will be billing the Project for additional costs they incurred. The contractor could not estimate the amount of the additional billings. Based on these expected billings, it appears the Project's actual expenditures for our review period may be higher than indicated in our review. The CEO indicated that they are working with

the contractor to identify additional State revenues to offset these costs and that payments to the contractor will be limited to the contract maximum.

Recommendation

- 3. Project 50 management work with the Project contractors to identify any additional costs/revenues for services through June 30, 2009, and include any additional costs in the Project cost information.**

Costs Incurred by Other Agencies

As noted earlier, programs such as Project 50 may also result in costs outside of the County that should be considered as part of the total cost of the Project. For example, outreach costs incurred by the Los Angeles Homeless Services Authority (LAHSA) to locate and transport participants, and housing vouchers provided by the Los Angeles City Housing Department through the U.S. Department of Housing and Urban Development. In addition, other departments/agencies such as the Probation Department, Sheriff's, the Department of Public Social Services, etc., provided support services. Project management indicated that they did not budget or track these costs because it is not the County's practice to budget for outside agency costs, and they did not believe the costs were incremental. As noted earlier, while some of these costs may not be considered incremental, they should be considered as part of the total cost of the Project.

Review of Report

We discussed the results of our review with the Project management team from the CEO, DHS and DMH in January and February 2010. The Project management team generally agrees with our findings and recommendations. We thank Project 50 management, County and contractor staff for their cooperation and assistance throughout our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:TK

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